

Message Text

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E.O. 11652: N/A
TAGS: EGEN, UK
SUBJECT: CBI VIEWS ON WAGE PROSPECTS

SUMMARY. IN A LUNCHEON DISCUSSION WITH THE AMBASSADOR
RECENTLY CBI DIRECTOR GENERAL JOHN METHVEN TOOK A MIDDLE
GROUND ON THE PROSPECTS FOR WAGE RESTRAINT IN BRITAIN
IN THE COMING YEAR. WHILE THE PROSPECTS FOR A FAIRLY
TIGHT STAGE III AS EARLIER CONCEIVED APPEAR NIL, HE
DOES NOT THINK A WAGE EXPLOSION IS LIKELY EITHER AND
ESTIMATES AN AVERAGE 12-14 PERCENT INCREASE AS PROBABLE.
METHVEN IDENTIFIED THE TUC LEADERSHIP'S ABILITY TO
PERSUADE LOWER LEVEL LEADERSHIP AND THE RANK AND FILE
OF UNION MEMBERS AS A PRINCIPAL UNKNOWN AND POTENTIAL
VARIABLE. END SUMMARY.

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1. METHVEN WAS ACCOMPANIED BY SIR DONALD MACDOUGALL,
CHIEF ECONOMIC ADVISER TO CBI, AND LORD PLOWDEN, RECENTLY
CHAIRMAN OF TUBE INVESTMENTS, WHO IS ACTIVE IN CBI
AFFAIRS. HOWEVER METHVEN DID MOST OF THE TALKING ON
BRITAIN'S IMMEDIATE PROSPECTS.

2. IN APPROACHING THE QUESTION OF A THIRD ROUND OF WAGE

RESTRAINT, METHVEN SAID THERE IS GENERAL AGREEMENT AMONG THREE OF THE FOUR MAJOR PARTIES INVOLVED, I.E. THE GOVERNMENT, MANAGEMENT AND THE TUC LEADERSHIP. THEY AGREE THAT RESTRAINT IS DESIRABLE AND THAT A WAGE EXPLOSION OR AN EXCESSIVE LEVEL OF INCREASES WILL BE PAID FOR IN INFLATION AND EVENTUALLY CONTINUED OR INCREASED UNEMPLOYMENT. AN OPEN QUESTION IS THE EXTENT TO WHICH THE TUC LEADERS CAN PERSUADE LOWER LEVELS OF UNION LEADERSHIP AND THE RANK AND FILE TO THIS EFFECT. WHETHER THE UNIONS ARE PERSUADED TO ADHERE TO ANNUAL INCREASES OF COURSE IS INVOLVED AS WELL AS THE LEVEL OF INCREASES. METHVEN SAID HE DOES NOT HAVE MUCH CONFIDENCE THAT THE UNION LEADERS WILL BE ABLE TO PERSUADE THE RANK AND FILE THAT GOVERNMENT ACTIONS BENEFICIAL TO THEM ON TAXES AND PRICES SHOULD BE TAKEN MUCH INTO ACCOUNT.

3. HOWEVER THE CBI DOES NOT SEE THE PRESENT SITUATION AS SIMILAR TO THAT WHICH LED TO THE WAGE EXPLOSION OF 1974-75. AT THAT TIME OUTPUT WAS RISING AT A GOOD RATE, THERE WAS RELATIVELY FULL EMPLOYMENT, INFLATION WAS MOVING UPWARD FROM RELATIVELY LOW LEVELS AND THE MONEY SUPPLY WAS EXPANDING RAPIDLY. TODAY THE PRODUCTION CURVE IS FLAT, UNEMPLOYMENT IS HIGH, AND THERE ARE RECOGNIZED REASONS FOR MONETARY RESTRAINT. THE SITUATION IS MORE SIMILAR TO 1969-70 WHEN THERE WAS A POLICY OF MONETARY RESTRAINT. HENCE, WHILE THE CHANCELLOR'S 10 PERCENT LIMITED OFFICIAL USE

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TARGET WILL NOT BE ACHIEVED -- IT WOULD REQUIRE NOMINALLY 5-6 PERCENT SETTLEMENTS -- A REAL WAGE EXPLOSION ALONG THE LINES OF 1975, WHEN INCREASES RAN OVER 30 PERCENT, IS UNLIKELY. METHVEN ESTIMATES 12-14 PERCENT AS A LIKELY AVERAGE EARNINGS INCREASE FOR THE COMING YEAR.

4. QUESTIONED ABOUT PUBLIC SECTOR SETTLEMENTS, METHVEN SAID HOW THEY ARE HANDLED OF COURSE WILL BE A MAJOR FACTOR. HE SAID A LARGE INCREASE FOR THE MINERS WILL NOT BE TOO DANGEROUS IF IT IS CONFINED TO FACE WORKERS. HOWEVER, IF IT IS APPLIED TO SURFACE WORKERS AT THE MINES THIS WOULD BE A PRECEDENT FOR OTHER UNIONS AND IF IT IS APPLIED TO OFFICE WORKERS IT WOULD BE A PRECEDENT FOR EVERYONE. HE SAID THE FORD AND ICI SETTLEMENTS WILL BE IMPORTANT IN THE PRIVATE SECTOR, THOUGH BOTH COMPANIES ARE PROFITABLE AND CAN AFFORD TO PAY MORE THAN THE AVERAGE. METHVEN PROMISED US A SCHEDULE INDICATING WHEN SIGNIFICANT WAGE SETTLEMENTS ARE DUE.

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